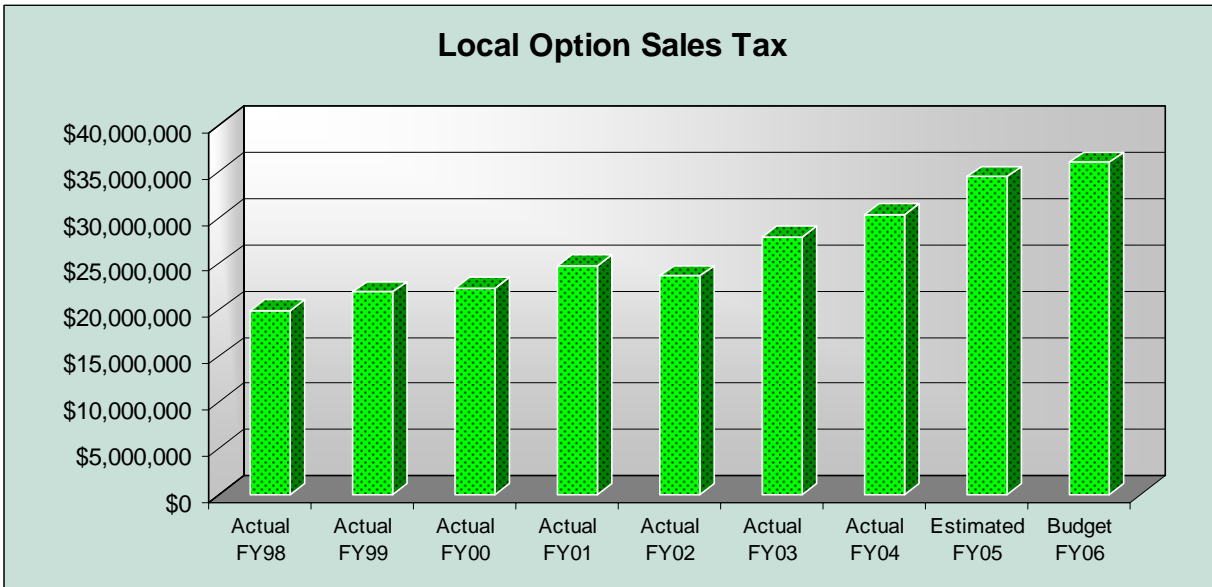


General Fund – Discretionary Revenues

GENERAL PROPERTY TAXES

The FY 2005-06 Budget includes a tax rate of 57.45 cents per \$100 of assessed valuation, which is the same as approved for the FY 2004-05 Budget. The property tax rate is established annually during the City budget process. The City's property tax is levied based on 100% of the assessed value of property from the previous January 1 as determined by the Durham County Tax Administrator, whose office both bills and collects property tax. Please refer to Section IV - Budget Summaries for tax base information.

OTHER LOCAL TAXES



Sales Tax - The sales tax is levied on the sale, lease, or rental of all taxable goods and services within Durham County. Purchasers of these goods and services pay the tax. Sales tax is collected by businesses at the time of the sale and then paid periodically to the North Carolina Department of Revenue, Sales and Use Tax Division. The Department of Revenue then remits that portion due to the County and all municipalities in the County based on a per capita formula.

The State levies a 6.5 cents per dollar retail sales tax on all retail sales except for food purchases to be consumed at home, which is taxed at 2 cents per dollar. Most services and prescription drugs are exempt from sales taxes. The State retains 4 cents for retail (0 cents in the case of food sales) and returns 2.5 cents to local governments. The sales tax is an important revenue source for the City, representing 19% of General Fund revenue for FY 2004-05.

The State authorized counties to increase the sales tax by 0.5 cents effective December 2002. (Through FY 2002-03, the City of Durham counted sales tax revenue actually received in the fiscal year, thus not counting one quarter of sales tax receipts earned in a year. Beginning in FY 2003-04, the City of Durham accrued sales tax revenue earned during the fiscal year.) The FY 2003-04 budget included a full year of the new ½ cent sales tax.

The FY 2005-06 budget estimate is reflective of the recent growth trend in realized sales tax revenues versus budget estimates.

Hotel/Motel Tax - A tax of 6% is levied on hotel/motel rentals in Durham County as authorized by the General Assembly in the 2001 session. Of the first 5%, the City receives 25.5%, Durham County receives 34.5%, and the Durham Convention and Visitors Bureau receives 40%. The last 1% is held by Durham County to pay for arts and cultural projects. Funding is set aside in the last 1% for the City to develop a Performing Arts Center. The hotel industry has not fully recovered from the reduced travel after the September 11, 2001 terrorist attacks. The FY 2005-06 budget estimate represents a 5% increase over the FY 2004-05 revised estimate for these receipts.

LICENSES AND PERMITS

Cable Television Franchise - This revenue is received by the City for administration and coordination of the City's franchise agreement with Time Warner Cable. A 5% surcharge is included on all cable bills issued to customers. Effective FY 2002-03, Time Warner did not include the cost of Internet services in the calculation of the surcharge paid by customers. The FY 2005-06 revenue projection assumes an increase of 1.1% over the FY 2004-05 revised estimate of receipts.

Business Licenses - Businesses are assessed a fee for the privilege of doing business in the City. The FY 2005-06 budget assumes a 4.5% increase over the FY 2004-05 revised estimate.

INTERGOVERNMENTAL REVENUE

Intergovernmental revenue consists of revenue received by the City from federal, state, and county government in the form of grants, shared revenues, or reimbursements. Charges to other governments for services rendered, such as for interlocal agreements, are not included in this category.

State Shared Revenues

- ❖ **Utility Franchise Tax** - The State levies separate taxes on gross receipts of electric, natural gas, and telephone (including cellular) utilities and distributes revenues quarterly. The FY 2005-06 budget assumes this revenue will grow at 2.2% over FY 2004-05 expected receipts.
- ❖ **Gasoline Tax (Powell Bill)** - The revenue generated from Powell Bill collections is used to support the maintenance of non-state system streets. The City's share is based on population (75%) and local street mileage (25%) relative to those of other municipalities. For FY 2005-06, the City projects a 6.8% increase which is supported by estimates from the North Carolina League of Municipalities. This increase is attributable to three factors: 1) The return of \$25 million in funding which was borrowed by the State to balance the budget in a prior fiscal year; 2) The improving economy; 3) Rising gas prices. The State Highway Trust Fund is used to supplement the State Highway Fund in the funding of the Powell Bill distribution. This projection assumes that the proportion of City street miles and population before annexation to street miles and populations of other municipalities remains constant.
- ❖ **Beer and Wine Tax** - The tax on malt beverages and unfortified wines is paid by the final purchaser and administered by the State. Taxes are distributed to entitled municipalities according to population. The FY 2005-06 budget assumes this revenue will increase 3.0% over what the City is anticipating in FY 2004-05.
- ❖ **Alcoholic Beverage Control Tax** - The City receives 10% of the profit from ABC operations in the County. There is no growth anticipated in this revenue.
- ❖ **State Reimbursements** - Effective July 1, 2002, the State repealed several reimbursements to local governments, including the Inventory Tax Credit, the Homestead Tax Exemption, the Intangibles Tax and the Food Stamp Sales Tax Reimbursement. Together, these reimbursements represent a loss of \$3,826,248 to the City of Durham.

Other Agencies

- ❖ **Payments in Lieu of Taxes** - Payments are made by the Durham Housing Authority under a contract with the City based on a percentage of rents less utility costs.

INVESTMENT AND RENTAL INCOME

Investment Income - Revenues into the General Fund do not occur evenly over the fiscal year. Most property tax, for example, is collected during December and January of each year. The Finance Director is authorized to invest these funds in short-term investments. The resulting interest accrued on the invested funds is considered interest revenue for the City.

By resolution of the City Council, all investment income derived from the General Fund is transferred to the Capital Projects Fund, less amounts allocated to the Budget and Management Services and Finance Departments representing activities in these departments associated with capital project and investment income activities. Due to the Governor's actions on state-shared revenues for FY 2001-02 and FY 2002-03 and the continued downturn in the economy, investment income remained in the General Fund for FY 2003-04. In FY 2004-05, a 2 cent property tax increase for capital projects and major maintenance initiatives replaced the transfer of investment income. For FY 2005-06 the transfer is limited to an allocation of \$1,000,000.

Rental Income - Fees included here are realized from the rental of caretaker houses and apartments at City parks and community buildings, temporary rental of houses and property acquired for other purposes, and miscellaneous rentals.

Right-of-Way Charges - This represents a charge to the Water and Sewer Fund for the use of the City's rights-of-way.

OTHER REVENUE

This category is used to record those revenues that are miscellaneous in nature.

Sale of Surplus Land - Periodically the City sells surplus land.

Sale of Surplus Equipment - Periodically the City auctions equipment. The FY 2005-06 budget assumes a sales volume consistent with the most recent prior year actual results.

Credit Union Overhead - This revenue represents a General Fund administrative charge to the Credit Union.

Street Assessments - The City assesses properties based upon front footage for streets and sidewalks construction projects.

Certificates of Participation - This represents the proceeds from the issuance of Installment Sales debt (COPS) for purchases of equipment in the General Fund during FY 2005-06. This revenue offsets the capital appropriation for these purchases.

Miscellaneous - Revenues received from various sources unrelated to specific departmental activities are recorded here. Examples of such revenue are administrative fees related to garnishments for child support, charges for City documents, travel advances returned to the City, and payments for damaged City vehicles.

Transfer from Reserves - Reserved fund balance for carryovers and carryforwards from the previous fiscal year are recorded here.

TRANSFER FROM OTHER FUNDS

The General Fund receives transfers from other funds for indirect costs or for the cost of activities performed in the General Fund. All enterprise and special revenue funds are subject to incur indirect costs. The indirect costs are calculated from the FY 2003 Indirect Cost Plan issued by the Finance Department in 2003 with minor growth estimates applied where applicable.

APPROPRIATION FROM FUND BALANCE

Revenues from prior years are often necessary to balance the budget. To the extent the FY 2004-05 budget ends the year with revenues exceeding expenditures, funds will be returned to Fund Balance. The final year-end figure will depend on actual revenues and expenditures as determined through the City's FY 2004-05 financial audit. For the FY 2005-06 budget, \$729,382 is appropriated from fund balance to balance the budget. If funds from FY 2004-05 are returned to Fund Balance, they will be used to keep our General Fund Balance at the desired level of 12%. The City's Fund Balance Policy limits the amount to be appropriated from fund balance to the equivalent of 4.4 cents on the tax rate over a two-year budget cycle.